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SUBJECT: Mobile Banking in Pakistan - Challenges and Prospects

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¶1. (SBU) Summary: In a series of meetings in Karachi and Islamabad in early October, the Treasury Attache and an advisor from Treasury's Office of Terrorist Financing and Financial Crimes discovered that some of Pakistan's commercial banks and microfinance banks have a growing interest in providing mobile banking services and bolstering financial inclusion. Moreover, the State Bank of Pakistan (SBP) and other government regulators have developed a solid regulatory framework to ensure that proper consumer and illicit finance safeguards are in place and to help the sector grow.

Banks eager to roll out mobile financial services want to expand their product offerings in the remittance market (reftel) and hope that the SBP will allow them to close underperforming branches. They are most optimistic about mobile banking's potential in Punjab and Sindh provinces. End Summary.

Background

¶2. (U) In a country of some 176 million people, there are only approximately 22 million active bank accounts in Pakistan. Furthermore, bankers estimate that only 6 to 8 million people control those 22 million accounts. The main contributing factors for this phenomenon are lack of physical access to banks, lack of appropriate services for poor customers, and voluntary financial exclusion.

¶3. (U) Although there are multiple variations, in its most basic form, mobile banking uses networks of agents to service withdrawals and deposits and uses the mobile phone network to transmit payment messages. Customers can use their mobile phone to check their balances, send money to other mobile phone subscribers, and pay bills. The telecoms are not providing a financial service in their own right, but are working on behalf of banks.

¶4. (SBU) For banks, mobile banking has high start-up costs, with little promise of an immediate return on the investment. The bank must purchase software, advertise the service, recruit agents and bear the costs of customer due diligence and account setup. Tawfiq Hussain, President and CEO of Samba, a Saudi Arabian bank with a small presence in Pakistan, admitted that he had little interest in launching mobile banking because he found the start up costs too high to attract customers who would only conduct remittances.

Banks and Telecoms at Odds

15. (SBU) In Pakistan, telecom companies are necessary participants in mobile banking, but SBP regulations insist on a "bank-led" model where commercial, Islamic, or microfinance banks are controlling partners. Moreover, the SBP puts the responsibility on the bank to ensure proper customer due diligence, adherence to banking regulations, and soundness of the business plan. While appreciating the compliance responsibilities for banks, the Director of Wireless Policy at the Ministry of Information and Technology, Mudassir Hussain, argued that SBP regulations were too strict for even the most basic mobile and branchless bank accounts.

Telecom Market Tightens -----

16. (SBU) Many telecom companies are aggressively pushing their existing or potential banking partners to sponsor mobile banking programs. In the highly competitive domestic market, Pakistan's telecom companies are seeking new revenue sources and ways to retain customers. According to the Pakistan Telecom Authority's Chief of Economic Analysis Arif Sargana, most of Pakistan's telecom companies are heavily in debt, and because of the difficult financial situation faced by Pakistani consumers, overall growth in mobile usage is not expected to exceed one percent for at least the next year.

17. (SBU) The telecoms' financial situation adds to existing tension with the banks over revenue sharing and customer ownership. Slow growth means that the telecom companies will need to earn more money per customer to increase revenue, likely leading to a greater

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reliance on add-on services such as mobile banking to generate revenue.

Banks See a Variety of Opportunities -----

18. (SBU) Despite the high start-up costs, banks see opportunities to either enter or expand their presence in the mobile banking market. In separate discussions, executives from Habib Bank Limited (HBL), United Bank Limited (UBL), Citibank, Arif Habib Bank (ARB), and Tameer Microfinance Bank expressed different views on how mobile banking could be profitable.

19. (SBU) The CEO of ARB thought mobile banking could help capture more of the growing remittance market, which reached a record \$806 million in September or a year-on-year increase of 22 percent, and collect fees from new customers. ARB believes that reaching remittance customers through mobile banking could build customer loyalty and a stable deposit base. ARB is interested in courting poor customers in Sindh and Punjab, provinces the bank has identified as a strategic priority. The CEO said that the small and medium enterprise (SME) sector was largely unbanked, and suspected many SME owners prefer to stay outside of the formal financial system because they can evade taxes and the local and national bureaucracy. The Managing Director of Tameer Microfinance Bank, Nadeem Hussain, views its mobile banking program as a possible means of expanding microfinance in Sindh and Punjab. He thought similar microfinance projects in NWFP and Baluchistan too high risk.

110. (SBU) Citibank Country Manager Arif Usmani said Citibank was developing its mobile banking program in three phases. In the first phase, mobile banking will facilitate domestic remittances, bill payment, and person-to-person funds transfer. In the second phase, mobile banking will facilitate international remittances. In the third phase, Citibank mobile banking will facilitate cashless retail transactions. Citibank entered into this arrangement with the Pakistani telecom Mobilink because Mobilink is a large client and is in financial trouble. Citibank is in the midst of a pilot now and is aiming for a broader launch in November.

111. (SBU) UBL is the most active in the new payments space, having already launched a successful payment card program that delivered \$300 humanitarian assistance to over 250,000 Individually Displaced Persons in NWFP. UBL has launched several creative pilot mobile

banking programs that rely on small and medium retailers to serve as agents. The bank has 20 retailers in Karachi involved in the pilot, which is focused mostly on bill payment. UBL does not see much business potential in Balochistan, FATA or NWFP, but it is willing establish operations there if someone pays account setup, account maintenance and transaction costs.

¶12. (SBU) HBL maintains the largest branch network in Pakistan, with 1400 branches. HBL officials said that many of its rural branches only provide deposit and withdrawal services and that these branches lose money. HBL officials hope that a successful mobile banking program would encourage the SBP to ease banking requirements, which currently force banks to open 20 percent of new branches in rural areas and prevent banks from closing branches if the branch closure would result in an area becoming unbanked. HBL has been in discussions with two telecom providers about creating a mobile banking product. It has also been in discussions with gas stations and Pakistan Post about establishing an agent network. (Note: HBL also bid on the payment card program that the GOP awarded to United Bank Limited. End Note.)

Comment:

The appetite in Pakistan's banking sector for mobile banking creates an opportunity for USG or other entities to work through the banks to deliver assistance. If an opportunity existed, multiple banks would likely bid for the chance to establish a mobile banking network in support of USG or other efforts in Pakistan, thereby bringing more Pakistanis into the banking sector. One example would be an innovation fund that would leverage Pakistani private sector investments in branchless banking technology. Currently, post is reviewing the best options to reinvigorate microfinance and improve

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the access to banking services with its foreign assistance program. Mobile banking offers an attractive model for further exploration. End comment.

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